STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.

COURSE CODE: 19AF/MC/FM34

B.COM (A&F) DEGREE EXAMINATION – NOVEMBER 2021
ACCOUNTING & FINANCE
THIRD SEMESTER

COURSE : MAJOR – CORE
PAPER : FINANCIAL MANAGEMENT
TIME : 3 HOURS **MAX. MARKS: 100**

SECTION – A

Answer all the questions: **(3 x 4 = 12)**

1. Calculate the Operating Leverage ,Financial leverage from the following information:
   Sales –Rs.50,000 , Variable Cost – Rs.25,000 , Interest –Rs.5,000 and
   Fixed Cost – Rs.15, 000.
2. What are classification of Lease financing?
3. Write a note on MM Hypothesis.

SECTION – B

Answer any THREE questions: **(3 x 16 = 48)**

4. A. "Wealth Maximisation is a better criterion than profit maximization." Do you agree? Explain. **(8 Marks)**
   B. Explain the assumptions and implications of the NI and NOI approach. **(8 Marks)**
5. A. XYZ Ltd has borrowed Rs.5,00,000 to be repaid in five equal annual payments (Interest and principal both). The rate of interest is 16%. Compute the amount of each payment. Set up an amortization table. **(8 Marks)**
   B. The earnings of fair growth Ltd were Rs.3 per share in Year 1. They increased over a 10 year period to Rs.4.02. Compute the rate of growth of the earnings per share. **(4 Marks)**
   C.ABC Ltd has Rs.10 Crore bonds outstanding .Bank deposits earn 10% per annum. The bonds will be redeemed after 15 years for which purpose ABC Ltd wishes to create a sinking fund. How much amount should be deposited to the sinking fund each year so that ABC Ltd would have in the sinking fund Rs.10 Crore to retire its entire issue of bonds? **(4 Marks)**
6. A company is considering an investment Proposal to install new milling machine controls at a cost of Rs.50, 000. The facility has a life expectancy of 5 years and no salvage value. The tax rate is 35%. Assume the firm uses straight line depreciation and the same is allowed for tax purposes. The estimated cash flows before depreciation and tax (CFBT) from the investment proposal are as follows:

Year	CFBT
1	Rs.10,000
2	Rs.10,692
3	Rs.12,769
4	Rs.13,462
5	Rs.20,385

Compute the following:

(i) Pay – back Period **(3 Marks)**

(ii) Average rate of return **(3 Marks)**

(iii) Net Present Value **(3 Marks)**

(iv) Profitability Index **(3 Marks)**

(v) Internal rate of return **(4 Marks)**

7. From the following data, compute the duration of the operating cycle for each of the two years: **(16 Marks)**

Particulars	Year 1	Year 2
Stock – Raw Material	Rs.20,000	Rs.27,000
Work –in-Progress	Rs.14,000	Rs.18,000
Finished Goods	Rs.21,000	Rs.24,000
Purchases	Rs.96,000	Rs.1,35,000
Cost of Goods Sold	Rs.1,40,000	Rs.1,80,000
Sales	Rs.1,60,000	Rs.2,00,000
Debtors	Rs.32,000	Rs.50,000
Creditors	Rs.16,000	Rs.18,000

SECTION – C

Answer any ONE question: (1x 40 = 40)

8. As a financial analyst of a large electronics company, you are required to determine the weighted average cost of capital of the company using (a) book value weights and (b) market value weights. The following information is available for your perusal.

   The company's present book value capital structure is:

Debentures (Rs.100 per debenture)	Rs. 8,00,000
Preference Shares(Rs.100 per share)	Rs. 2,00,000
Equity Share (Rs.10 per share)	Rs.10,00,000

   All these securities are traded in the capital market. Recent Prices are:

Debentures (Rs.110 per debenture)
Preference Shares(Rs.120 per share)
Equity Share (Rs.22 per share)

   Anticipated external financing opportunities are:

   (i) Rs.100 per debenture redeemable at par ; 10 year maturity , 11% coupon rate , 4 % floatation costs , sale price Rs.100.

   (ii) Rs.100 preference share redeemable at par; 10 year maturity , 12% dividend rate , 5%flotation cost , sale price Rs.100

   (iii) Equity : Rs.2 per share flotation cost , sale price =Rs.22

   In addition, the dividend expected on the equity share at the end of the year is Rs.2 per share; the anticipated growth rate in dividends is 7% and the firm has the practice of paying all it's earning in the form dividends. The corporate tax rate is 35%.

9. **A.** A Company provides you the following facts. Estimate the net working capital required for the project.

Cost Elements	Amount
Raw Material	Rs.80

Direct Labour	Rs.30
Overheads (including Depreciation , Rs.10 per unit)	Rs.70
Total Cost	Rs.180

Additional Information:

(i) Selling Price : Rs.200 per Unit
(ii) Level of activity : 1,56,000 units of production per annum
(iii) Raw materials in stock : average 4 weeks
(iv) Work-in-Process (assume 50% completion stage in respect of conversion cost and 100 % completion in respect of material) : average 2 weeks
(v) Finished goods in stock: average 4 weeks
(vi) Credit allowed by suppliers : average 4 weeks
(vii) Credit allowed to debtors : average 8 weeks
(viii) Lag in payment of wages : average 1.5 weeks
(ix) Cash at bank is expected to be Rs.25,000

You may assume that production is carried on evenly during the year. All sales on credit basis. Add 10% to your computed figure to allow for contingencies. **(25 Marks)**

B. Write Short on: **(3x5=15)**

(a) Operating Cycle

(b) Net Working Capital

(c) Need for Working Capital